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DIRECTORATE OF
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Intelligence Memorandum

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The World Gold Market

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1968

INTELLIGENCE MEMORANDUM

The World Gold Market

Summary

During July 1968, US gold reserves increased and free market gold prices declined. Among transactions in the "official" tier of the market, French sales of gold to the United States continued, as a result of the severe exchange losses France had suffered since the onset of its domestic crisis in May. France sold the United States $75 million in gold during July and plans another sale of $75 million in August. When added to sales of $220 million in June (part of a total of $400 million sold to major Western central banks), these sales will bring the total current flow of gold from France to the United States to $370 million. Meanwhile, many smaller countries, especially those trying to reduce their sterling holdings, continue to purchase US gold. So far, these small purchases have been more than offset by French sales, but during August they will total $125 million more than French sales.

The only other significant official transaction was another purchase of gold ($34 million) by Portugal direct from South Africa. This is part of a series of transactions that will reach a total of about $112 million by the end of August. Another transaction, of still unknown amount, is planned for September.

In the private tier of the world gold market, the main development was a sharp price decline in mid-July from more than $40 an ounce to about $38 an ounce. This decline reflected increasing

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

confidence in the international monetary system, stimulated not only by the announcement of new arrangements to support sterling but also by passage of the US income tax surcharge bill in Congress. Two rumors also played important roles in bringing down the private market price. The first, which was without foundation, was that the USSR would soon sell gold to finance wheat purchases from Canada. The second was that South Africa was on the point of reaching agreement with the major Western central banks on a scheme to sell South African gold in both the official and private tiers of the market, with arrangements to place a "floor" of $35 per ounce under the price in the private tier (the official price is guaranteed at $35 an ounce by the US Department of the Treasury). Discussions of possible arrangements of this nature are under way, but no agreement has been reached.

As the free market gold price fell toward $38 per ounce, Minister of Finance Diederichs announced in Johannesburg that South Africa had sold gold to both official and private buyers in May and June and thereby had received sufficient foreign exchange to permit South Africa to refrain from further sales for "a considerable time to come." By subtracting known official sales, South Africa's sales to free market dealers -- almost certainly the Swiss -- can be estimated at about $35 million. It is not known whether the gold involved actually was placed on the market by dealers. If it was, marketing agents parceled it out in small amounts to avoid price disruptions and carefully refrained from any public announcement of its origin. Both the small total involved and marketing precautions cast doubt on Diederichs' assertion that South Africa's "substantial" sales were a test of the market's ability to absorb South African sales without marked price declines. In any case, the South African statement on past gold sales and the suspension of future sales had very little effect on gold market prices, and they remain well below the levels of late June and early July.

The ruling prices in the free gold market are those prevailing in London and Zurich, the two principal marketing centers. In Paris, where the market has been affected by reduced confidence in the franc and by exchange controls that cut off access to freely imported gold from London and Zurich, prices have remained about $3 an ounce higher. In Frankfurt, the center of the West German gold market, prices have followed trends in London and Zurich. Both Paris and Frankfurt are candidates for status as international gold markets of importance, but neither has reached that level as yet. The domestic crisis has dealt a serious blow to French hopes in this regard, and the Paris market remains technically at a disadvantage in terms of experience, storage facilities, and access to large supplies. The Frankfurt market has been substantially reorganized and is actively seeking an international gold business. As an international market, Frankfurt potentially is in a stronger position than Paris.

Communist activity in Western gold markets remains small. During the first few months of 1968, Communist China was a relatively heavy purchaser of gold, as it shifted its foreign assets out of weak currencies and into both gold and strong currencies like the Deutsche Mark. The USSR has not sold any gold in more than a year, nor have East European countries been especially active.

The Official Market for Gold

1. During the first three weeks of July 1968 the United States on balance acquired $39 million in gold. Six countries purchased a total of $36 million (see Table 1), but this was more than offset by a French sale of $75 million to the United States. The US gold stock rose by about $300 million to $10.7 billion on 19 July. The Bank of France is expected to sell $75 million more to the United States in the near future. Presently expected purchases of gold from the United States by smaller countries, however, exceed the anticipated French sale by $125 million.

2. During July, there were only three known gold transactions by central banks that could be interpreted as possible violations of the intent of the Washington agreement. One case involved a purchase of South African gold and the other two involved central bank dealings in the private gold market. All three transactions appear to be similar to those reported in the last *World Gold Market* report.

Case One

3. The South African Reserve Bank is understood to have offered to sell the Bank of Portugal (the Portuguese central bank) almost $79 million in gold during August. The Reserve Bank sold the Bank of Portugal more than $34 million in July. Both the July sale and the offer to sell during August are at the official price of $35 per ounce (plus a small shipping charge). Another sale, the amount of which is not known, may be scheduled for September.

4. In addition the Portuguese central bank, which already has purchased $5 million in gold from the United States, intends eventually to purchase $95 million more, also from the United States. Portuguese central bank officials have indicated that they intend to convert about 70 percent of Portugal's foreign reserves into gold. This relationship was achieved in 1960 but the gold share had fallen to 56 percent by the end of 1967. If Portugal completes the planned purchases from South Africa (for a total of $112 million) and purchases a total of about $100 million from the

Table 1

Actual and Planned Transactions in Gold with the United States
July-December 1968

Million US $

Purchases from the United States (1-19 July)		Gold Sales to the United States (1-19 July)		Planned Purchases from and Sales to the United States (20 July - End of Year)	
Country	Amount	Country	Amount	Country	Amount
Argentina	5.0	France	75.0	Purchases	
Ireland	4.0				
Kuwait	4.8			Argentina	22.0
Malta	7.2			Kuwait	48.0
Portugal	5.0			Portugal	95.0
Singapore	10.0			Saudi Arabia	25.0
				Singapore	10.0
				Sales	
				France	75.0
Total	*36.0*		*75.0*		*125.0 a/*

a. Net purchases.

United States, gold holdings would reach an estimated $923 million, or about 75 percent of estimated foreign reserves.

Case Two

5. [redacted] Kuwait purchased about $400,000 in gold from the Swiss Bank Corporation during the second week in May. Kuwait also may have purchased about 1,000 kilograms of gold during the third week in July. [redacted] 25X1 25X1 25X1

Case Three

[redacted] 25X1

7. Libyan officials claim that the purpose of their purchases in private gold markets is to maintain orderly conditions in the small local market for industrial gold. Such transactions are conducted by a department of the Bank of Libya entirely separate from that involved in monetary policy matters. The Libyans claim that the free market gold purchases of this department do not contravene the Washington agreement.

The Free Market for Gold

Principal Developments in July: South African Sales

8. During the last week in June and the first two weeks in July, gold prices in London and Zurich fluctuated in a narrow range around $41 an ounce on normal daily volumes. (The weekly ranges of prices for London and Zurich are shown in Table 2.)

Table 2

Price Range in the London and Zurich Gold Markets
24 June-26 July 1968

US $ per Fine Ounce

Week	London a/	Zurich b/
24-28 Jun	40.80 to 41.05	40.75 to 41.00
1-5 Jul	40.75 to 41.15	40.62 to 41.12
8-12 Jul	39.10 to 41.15	39.00 to 40.00
15-19 Jul	37.70 to 39.20	38.00 to 39.25
22-26 Jul	38.65 to 39.20	38.50 to 39.38

a. Based on the morning and afternoon fixes.
b. Not exactly comparable with London; these data consist of the lowest offer to buy and the highest offer to sell during the week.

During the third week in July, prices in London and Zurich fell to a range of $38 to $39 an ounce amid reports that speculators were selling fairly heavily. Daily volumes in each market rose to 8 or 9 tons, well above average. The wave of selling can be attributed to a combination of factors: (1) there were rumors that the Soviet Union was going to sell gold to acquire the necessary currency for an anticipated wheat purchase from Canada; (2) there were also rumors that South Africa, the United States and the major European central banks were very close to an agreement on central bank purchases of South African gold; and (3) confidence in the international monetary system was returning rapidly.

9. The rumors concerning Soviet sales were subsequently proved incorrect. The USSR had a surplus in its hard currency transactions last year. The hard currency balance of payments may be less favorable this year, but there will probably be no need to sell gold. The rumor that agreement had been reached between South Africa and the major Western central banks contained an element of truth; discussions among central banks have been under way. But agreement has not been reached and South Africa has not been approached. This rumor was partly substantiated on 18 July by an official in the West German Ministry for Economics who informed the press that central banks may shortly agree to provide a floor for the free market price by buying South African gold at $35 an ounce when the free market price falls to or below this level.

10. On 18 July, Minister of Finance Diederichs announced in Johannesburg that during May and June the South African Reserve Bank had sold gold in both the official and private gold markets. He also announced that because of these sales South Africa would not need to sell any additional gold for "a considerable time to come."

11. Diederichs did not announce the amounts sold or the exact timing of the sales. During the third week in June the South African Reserve Bank sold $42 million to the central banks of France and the United Kingdom to redeem an equal amount of its own currency issued as part of previous French and UK drawings on the International Monetary Fund (IMF). This sale was public and was not considered a violation of the Washington agreement by the US or European central banks, as South Africa acquired only its own currency. 25X1

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12. It appears likely that the Swiss banks acquired about $35 million in South African gold.

South Africa reported gold reserves of $946 million at the end of May 1968. Production of gold during June is estimated at $98 million which, when added to the reserve figure for the end of May, would bring South African gold reserves to $1,044 million. The figure actually reported for the end of June, however, was only $967 million, indicating a discrepancy of $77 million. Of this, $42 million is known to have been sold to France and the United Kingdom, as indicated above, leaving a minimum of $35 million available for free market sales.

[redacted] 25X1

13. The sale to the Swiss could have been accomplished in one of two ways: (1) by outright sale to one or more of the "Big Three" Swiss banks or (2) by transfer of gold to the Swiss in settlement of a short-term loan by the Swiss to the South Africans. Such loans have been discussed actively in recent months and have formed a principal element in the bargaining of the Swiss "Big Three" for access to newly mined South African gold.

14. Diederichs, in his statement, stressed that his country's free market sales had no depressive effect on the free market price of gold. This stress is misleading for several reasons. If the Swiss banks did purchase gold from South Africa, they may not actually have sold it on the free market but rather may have added it to their own stocks. Moreover, if the Swiss did in fact market gold received from South Africa, their own policies of supporting and stabilizing the gold market would have impelled them to do so in small amounts and without announcing its origin. For these reasons also, and because South African sales were in May and/or June, according to Diederichs, these sales probably are not the cause of the decline in gold prices during July.

<u>The Engelhard Group</u>

15. Shortly after Diederichs' announcement, the Engelhard group expressed to South African officials their disappointment on being excluded from the free market transactions. (The Engelhard

group and the "Big Three" Swiss banks are the two leading competitors for South African gold.*) The Engelhard group reportedly was informed that the South African Reserve Bank, not the Chamber of Mines,** had made the decision to sell and that it had selected foreign banks with whom it had a long-standing association. Although the identity of the foreign banks was not revealed, the banks in question were almost certainly the three Swiss commercial banks. Neither the quantity nor the precise timing of sales was revealed. South African officials also stated that the decision was based on a need for secrecy, thereby implying that any deal with the Engelhard group might have been compromised.

16. South African officials also stressed that the Engelhard group should not be discouraged, as these particular sales set no precedent. They also stated that, as soon as South Africa's right to sell to official sources was established, the decision to sell gold on the free market would then revert to the Chamber of Mines, which is favorably disposed toward the Engelhard group. The Engelhard group had two reactions to these statements: (1) the South African government would go to great lengths to keep the amount of the sale secret -- apparently even from the Engelhard group -- and (2) the South Africans clearly want to keep their options with the Engelhard group open.

<u>The Paris Market</u>

17. The traditional participants in the Paris gold market are numerous French hoarders, speculators, and private firms. Except for a few weeks

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** The Chamber of Mines is the industrial organization that controls gold mining in South Africa. It has been the principal point of contact for the Engelhard group.*

in March and early April, Paris has not been important as an international market for gold. Until the two-tier market was established in mid-March, nearly all of the gold traded in Paris was in the form of 1-kilogram bars (2.2 pounds) and gold Napoleons (coins). The price of Napoleons has been about $10 and the average price of a 1-kilogram bar has ranged from $1,200 to $1,500. Both are popular with the large number of French citizens who hoard and speculate in gold on a relatively small scale. To a much lesser extent 12.5-kilogram bars (27.6 pounds) also are traded in Paris, but the high cost per bar -- a minimum of about $14,000 at $35 per ounce -- makes them less popular with the small buyers, who dominate the market. The small turnover in 12.5-kilogram bars, which are those most commonly traded in Zurich and London, both large international markets, also is indicative of the domestic nature of the Paris market.

18. The French government mints the coins, whereas the supply of bullion bars is obtained from speculators and commercial banks and occasionally from dealers in London and Zurich. According to the Deputy Governor of the Bank of France, the bank does not intervene in the bullion market and enters the market for Napoleons only when there is strong pressure on prices. During the November-March crises, the Bank of France was accused of intervention in the bullion market through the intermediary of a Parisian commercial bank, but there is no firm evidence to support that allegation.

19. Paris was a major international gold market during the last days of the gold crisis in March and for a few weeks after the mid-March establishment of the two-tier gold market. It was particularly important on Friday, 15 March, when both London and Zurich were closed. The Bank of France had initially intended to follow suit and close the Paris market, but then allowed it to remain open [redacted] 25X1 The volume of gold traded that Friday totaled about $45 million (at $44.36 per ounce), while $53 million had been traded on the previous day (for prices and volume on the Paris market, see Table 3). The normal daily volume in Paris

previously had been between $0.5 million and $1 million.

Table 3

Price Range in the Paris Gold Market
15 March-26 July 1968

Week	Price a/ (US $ per Fine Ounce)	Volume b/ (Million US $)
15 Mar	44.36	45.0
18-22 Mar	37.93 to 40.10	20.2
25-29 Mar	38.40 to 40.38	11.6
1-5 Apr	36.95 to 38.06	4.6
8-12 Apr	37.06 to 38.05	1.5
15-19 Apr	37.51 to 38.04	1.2
22-26 Apr	38.08 to 38.54	1.5
29 Apr-3 May	38.76 to 39.39	1.6
6-10 May	39.32 to 39.80	2.2
13-17 May	39.57 to 41.48	2.0
20-24 May c/	42.23 to 42.62	3.6
27-31 May	Closed	
3-7 Jun	Closed	
10-14 Jun	42.77 to 45.40	7.0
17-21 Jun	42.96 to 44.77	N.A.
24-28 Jun	43.26 to 44.70	N.A.
1-5 Jul	43.81 to 45.25	1.3
8-12 Jul	43.42 to 45.23	1.5
15-19 Jul	42.10 to 43.77	N.A.
22-26 Jul	42.28 to 43.62	N.A.

a. Based on lowest and highest prices for the week.

b. Average for the week, including coins as well as bullion. Generally 90 percent of the daily volume is bullion.

c. Price and volume for 20 May only; the market closed rest of week because of the strike.

20. Since the Paris gold dealers (unlike the Swiss banks, the London gold merchants, and the Bank of England) do not normally carry a large inventory of gold, there is some uncertainty concerning their sources of supply -- particularly on Friday, 15 March. [redacted] 25X1 several possible suppliers: Swiss commercial banks, other European banks, the French government, and the USSR. It seems unlikely that the French central bank has sold gold since the published amount of official gold reserves remained unchanged for the first three months of 1968. Rumors of Soviet sales are unconfirmed. Sales on 15 March, at a price above $44 per ounce, were probably made by European and Swiss commercial banks as well as by private speculators, who were taking a profit on gold previously purchased in London at $35 per ounce. The buyers on 14 and 15 March were about equally divided between European individuals and firms, including government-owned French companies, of which Renault reportedly was one. [redacted] 25X1

21. Pressure on the Paris market eased when the Zurich market reopened on Monday, 18 March. The Paris price fell to about $40.00 an ounce on a volume of about $31 million. By the end of the week, both prices and volume had fallen substantially, and by Friday, 22 March, the price was down to about $39.00 an ounce. From 25 through 28 March, prices and volume rose again. On Monday, 25 March, the price of gold closed above $40.00 an ounce on a daily volume of $15 million. By Friday, 29 March, the price subsided to $38.40 an ounce on volume of $7.1 million.

22. After the London gold market reopened on 1 April the volume on the Paris market in the ensuing week declined further to about $5 million per day. The daily volume during the remaining three weeks of April fluctuated between $1 million and $2 million. Prices in Paris during most of April moved parallel to those in London. The brief eminence of the Paris market ended by 5 April, as most of the big international buyers abandoned Paris for London and Zurich.

23. The next surge of activity on the Paris market began with the advent of civil disorder

during the third week in May. The market functioned normally on 20 May with prices above $42 per ounce (in line with prevailing prices in London and Zurich). On 21 May, opening prices were about $42.60 per ounce, still in line with London and Zurich. When the disorder in France grew worse, however, the Paris market was closed. One report stated that it was necessary on 21 May for the French police to block the entrance to the exchange to keep it from being overrun.

24. Within a week a black market for the 1-kilogram gold bars and Napoleon coins began operating. Rough estimates place the daily volume on the black market between $500,000 and $750,000 with prices at $42.00 per ounce and above. Again the domestic nature of the Paris market was demonstrated. Only 1-kilogram bars and Napoleon coins were traded in the black market; there were no reports of trading in 12.5-kilogram bars.

25. The regular market reopened on 10 June, and prices remained above $43 per ounce through the end of June. During this same period, prices in London and Zurich fluctuated around $41 per ounce. The higher prices on the Paris market reflected not only a continued lack of confidence in the franc but also the effect of emergency French exchange controls which prevented legal importation of gold from the principal markets in London and Zurich. By the first week in July, volume subsided to the previous normal daily average of $1 million to $2 million, but prices remained in the comparatively high range of $44 to $45 an ounce.

26. Paris, along with Zurich and London, has been publicly discussed as a possible marketing center for South African gold when the South Africans finally decide to sell gold regularly on the free market.* The Paris market, however, must first acquire some standing as an international gold market. A first small step in that

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direction, taken on the authorization of the French government, came on 9 May with the announcement that twice daily price fixings for the 12.5-kilogram bar (one of the basic units in international gold trade) would be made. The fixings, one at 11:45 a.m. and the other at 3:30 p.m., are conducted by representatives of six of France's largest banks: Banque Nationale de Paris, Credit Lyonnais, Societe Generale, Banque de l'Indochine, Banque de Paris et des Pays Bas, and Compagnie Parisienne de Reescompte. The first three are government banks and the other three are privately owned. This arrangement creates a new market that will be oriented mainly toward international gold dealing. It will supplement and partly overlap the traditional, essentially domestic, market, whose hallmark has been a brief session of trading on the Paris Bourse between 12:30 and 1:15 daily.

27. The twice daily fixing of the price of the 12.5-kilogram bar is, however, only a token effort at establishing Paris as an international gold market. Much more important efforts will be necessary to transform Paris into something more than a domestic market. Paris must attract new and large international customers, and its dealers must acquire experience as international gold dealers. They must acquire storage and refining capacity, carry larger inventories of gold, and offer an attractive marketing package to major suppliers -- principally South Africa. The Zurich gold market fills all of these conditions and, with the exception of the last requirement, so does the London market. The Paris market does not adequately meet any of these requirements. Moreover, the recent domestic disorder in France will make the Paris market look even less attractive.

28. Nevertheless, Paris dealers may eventually market a small share of South African gold. Two of the six banks involved in the daily price fixes -- Banque de l'Indochine and possibly Credit Lyonnais -- also are members of a group headed by Engelhard Industries, a major US industrial user
25X1 and processor of gold, which is attempting to persuade South Africa to grant it the exclusive right to market South African gold.* If the

Engelhard group is successful, some of the gold acquired eventually may flow through the Paris market. At present, however, this appears to be the only way the Paris market can be linked to a major supplier. Without a major supplier and without numerous large customers there is little need for storage facilities, refining capacity, or a large inventory of gold, and little prospect for development of an important international gold market in Paris.

The Frankfurt Market

29. Until an officially endorsed and centrally regulated gold market was established in Frankfurt in mid-June, gold was sold throughout Germany at various regional prices set by the German refining firm of DEGUSSA* and several German commercial banks. London was the principal source of gold sold in Germany before the establishment of the two-tier market in mid-March. Gold sales in Germany, like those in Paris, have been almost exclusively for domestic customers. Unlike the Paris market, which sells gold to many small French hoarders and speculators, transactions on the German market are intended mainly to supply the large domestic industrial demand that places Germany second to the United States in industrial consumption of gold.

30. The first efforts to promote Frankfurt as an international gold market appeared about two months after the establishment of the two-tier gold market system in March. At a meeting on 7 May the Frankfurt Stock Exchange Council agreed on the technical details of establishing a precious metals market as an addition to the Foreign Exchange Department of the Frankfurt Stock Exchange. It was decided that initially only gold would be traded on the newly formed market, although silver and platinum might be added later. Moreover, the Exchange would appoint a dealer to set a daily price fix for gold which would be the single price for gold transactions throughout Germany. Two prices would be set at a 12:00 noon fixing, one for the

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* DEGUSSA *is an abbreviated form of Deutsche Gold-und-Silberscheideanstalt AG (German Gold and Silver Refining Company, Inc.).*

1-kilogram bar and another for the 12.5-kilogram bar. Both of these prices would be based on the London morning price fixes. In addition, a group of dealers was selected to supervise the new market: the Deutsche Bank, Dresdner Bank, Commerzbank, Bank fuer Gemeinwirtschaft, and the refining firm of DEGUSSA.

31. The Bundesbank, the German central bank, endorsed the establishment of a central market where prices would be set by supply and demand for gold within Germany. The Bundesbank had previously been critical of the near monopolist position of DEGUSSA, which heretofore had been the principal German gold supplier.

32. On 18 June the first fixing in the new German gold market took place. Opening prices were $41.10 per ounce for the 1-kilogram bar and $41.05 per ounce for the 12.5-kilogram bar, generally in line with prices in London and Zurich. No volume figure was given but reports indicate that trading the first day was "modest."

33. The Frankfurt market may well become a relatively more important international gold marketing center than Paris. It can offer refining and storage capacity (since DEGUSSA is a member) while Paris cannot. Frankfurt dealers are attempting to attract additional business by charging low commissions on gold transactions. The commissions charged for purchases and sales will vary from 0.25 percent on quantities of 12.5 kilograms and above to 0.5 percent on quantities below 12.5 kilograms. Compared with London these rates are competitive when applied to buyers but not when applied to sellers.* Also, a 10 percent tax levied on gold transactions by the German government will be reimbursed to foreign buyers. Thus far, nothing has been said about the application of the tax to foreign sellers. Presumably, for very large sellers -- South Africa, for example -- the tax on sales would also be reimbursed.

* *London dealers charge nothing for selling. The charge for buyers in both markets is the same. In Zurich the commission is the difference between the buy and sell rates as established by the Swiss commercial banks controlling the Zurich market.*

34. Frankfurt dealers also are actively seeking new customers. For example, Commerzbank, one of the members of the Frankfurt market, currently is attempting to lure Middle Eastern customers from Zurich. In its sales pitch, Commerzbank is emphasizing the convenience of air services between Frankfurt and major Middle Eastern cities, and pointing out that Frankfurt gold prices are not controlled by a cartel like those in Zurich.

35. Seeking reliable access to gold supplies, several of the German banks approached the London dealers in June with a plan of closer cooperation between the Frankfurt and London markets. The proposal would require London to establish a specific stock of gold on which Frankfurt could draw, with Frankfurt dealers paying storage charges to London even though the gold was not theirs. The Frankfurt dealers believe that such an agreement would make them more competitive with Zurich by giving them the ability to fill large orders. The reaction of the London dealers to the proposal is not known. The Deutsche Bank, a member of the Frankfurt market, already has a working arrangement with Samuel Montague, Ltd., a London dealer, and Union Acceptances, Ltd., a South African financial house, to supply Deutsche Bank with gold. Thus far, Montague has probably supplied all of the gold bought by Deutsche Bank, since the South African government -- Union Acceptances' source of gold -- has not yet sold regularly on the free market.

36. [redacted] 25X1

The Dresdner Bank, like the Engelhard group and the Swiss banks, plans to establish a permanent office in South Africa to intensify its acquisition efforts in South Africa and probably also to keep a closer watch on Engelhard and the Swiss.

37. Frankfurt is not likely to replace either London or Zurich as a major world gold market in the near future. But unlike Paris gold dealers, the Frankfurt dealers are attempting to expand their sources of supply and to attract new customers -- the two most important moves necessary to acquire the status of an important international marketing center. With these moves, Frankfurt has outpaced Paris as a potentially important international gold market.

Other European Gold Markets

38. On 19 March 1968 the central bank of the Netherlands announced that Dutch citizens would be allowed to buy and sell gold in the Netherlands. The central bank directive rescinded the prohibition on the private ownership of gold in effect since 1940. Thus far, however, no organized gold market has emerged. If a market ever is formally organized, it probably would operate in Amsterdam under the auspices of the Amsterdam Stock Exchange. At present, Dutch buyers place their orders with local banks or brokers who buy the gold c.i.f. in London, Zurich, Paris, or Frankfurt. Only a low level of demand for gold is anticipated as the Dutch, like the Germans, have no substantial addiction to gold hoarding.

39. No organized gold markets presently exist or are anticipated in Italy, Belgium, Austria, Sweden, Spain, or Portugal. Residents of these countries can own and deal in gold domestically, except in Austria, where ownership and trading is limited to gold coins sold by the Austrian mint. With the exception of Belgium, all these countries place restrictions on importing and exporting gold. Although there are no restrictions on gold imports or exports in Belgium there have been no reports thus far of efforts to organize a formal market.

Communist Activities in the World Gold Market

40. During the gold crisis from November 1967 to mid-March 1968, Communist China was the most active Communist country in the world gold market. The Bank of China is known to have purchased $85 million in gold and may have purchased as much as $141 million; there is no indication that it has

sold any gold. All of the Chinese purchases were made in the London market and shipped by air to Peking. One attempt is known to have been made in the Paris gold market on 15 March (when the London and Zurich markets were closed). The Bank of China had placed an order to buy about $7 million in the Paris market at $37.50 per ounce, but the price of gold on 15 March in Paris was above $44 per ounce; therefore, the order was not executed.

41. Judging from the Bank of China's actions in the foreign exchange market, the principal motive behind these relatively large gold purchases was a precautionary diversification out of sterling and later the French franc. Net sales of sterling by the Bank of China between December 1967 and mid-May 1968 were about £37.8 million (almost $91 million). During the French crisis the Bank of China sold at least 328 million French francs (about $66 million). Both gold and other currencies (mainly Deutsche Marks) were purchased with francs and sterling.

42. The USSR, in contrast to Communist China, has remained almost completely out of the world gold market this year. Sales of Soviet gold in recent years were related to wheat purchases from the United States and Canada. However, sales to Communist countries, other than China, of approximately $24.5 million between 4 and 15 March [redacted] 25X1

43. The only evidence of participation this year in the world gold market by any of the East European countries was the $24.5 million mentioned above and two purchases by East Germany. The East Germans purchased almost $600,000 in London from Johnson, Matthey, Ltd., on 8 February and almost $5 million on 20 March, probably also in London. The second purchase was made by Stahlimport, the East German foreign trade organization responsible for importing metals. Hence, this purchase may have been for industrial purposes.